

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 TAIPEI 001233

SIPDIS

STATE PASS TO AIT/W
STATE ALSO FOR EAP/RSP/TC AND EB/TEX

E.O. 12958: N/A

TAGS: [KTEX](#) [ETRD](#) [TW](#)

SUBJECT: TAIWAN TEXTILE INDUSTRY SEARCHES FOR
PROSPERITY

Summary: 2004 statistics show Taiwan's textile industry remains competitive, with yarn and fiber industries showing strong growth, while garment manufacturers continue to move offshore in search of lower costs. As downstream industries like garment manufactures move, midstream manufacturers doing cutting and dyeing believe they must move with their customers. China is no longer the preferred destination for some manufacturers, who cite increasing restrictions on textile investment, lack of reliable water and power, and concerns about trade secrets and holding on to good employees as reasons to look for other attractive investment destinations. Left unspoken are concerns about potential restrictions on exports from China to the U.S. market, concerns that Taiwan companies may be susceptible to political pressures, and in some cases, a trace of Taiwan nationalism. Vietnam is proving to be the most attractive alternative, with several companies already establishing operations and others actively considering doing so. End Summary.

Textile Performance in January 2005

12. According to Taiwan Customs statistics, Taiwan's January 2005 textile and apparel exports were USD 930 million, up 15 percent from the same period of 2004. Yarn products performed best, accounting for over two-thirds of total textile exports, at USD 652 million. Yarn exports grew 18 percent compared to January 2004. On the other hand, garment exports decreased by 4.7 percent to just USD 97 million.

TTF Seminar- The Challenge for Taiwan

13. On February 24, 2005, The Taiwan Textile Federation (TTF) hosted a seminar titled "The 2005 Quota Free Means World Trade Free. Is it Challenge Free?" Over 150 people attended this seminar. The keynote speaker was Mr. Chen Shou-chung, Chairman of the Tah Tong Textile Co. Chen predicted that Taiwan fibers and yarns would become increasingly competitive while processed products with large production runs, like simple textiles and garments, would face fierce competition from China and India.

14. In the current environment, with high energy costs and a weakening U.S. dollar, Chen suggested that Taiwan manufacturers should stop focusing on cost-cutting and instead emphasize product quality. In his view, Taiwan should be shifting to small-quantity/high-quality textile commodities with high value added. Chen also raised the potential threat of Taiwan's economic marginalization, noting an international trend towards regional trade agreements that exclude Taiwan. He said that in addition to China's rapidly increasing production capacity in garments, India, Turkey, Brazil and Pakistan are improving textile production technology and product quality.

15. In an effort to stay competitive, Chen suggested that Taiwan textile firms should strengthen marketing capabilities, launch strategic alliances among up and downstream suppliers and customers, and be aware of related international regulations.

Up-Stream Expectations Positive

16. Dr. Hong Huei-song, Chief of Consumer Goods and Chemical Industries Division, Industrial Development Bureau (IDB), said he believed that in 2005 Taiwan textile up-stream sectors, including

man-made fibers and fiber texturing products, would remain internationally competitive, and might grow by as much as 20 percent; he estimated that mid-stream sectors, such as filament exports, would grow based on projections that the garment industry in China will grow rapidly in the post-quota environment. This is expected to lead to increased demand for filament production from Taiwan. In the down-stream sector, Hong expected Taiwan garment exports could fall by as much as fifty percent in 2005. Garment makers in Taiwan are increasingly finding that production costs in Taiwan are too high. Those that remain for the most part do so because they do not have the resources to move overseas.

17. Hong commented that in addition to China and India, Korea is a major competitor for Taiwan in the textile industry due to similar levels of industrial development. China and India produce natural fibers while Taiwan and Korea emphasize quality improvement of man-made fibers.

Taiwan Government Assistance

18. Official agencies including Ministry of Economic Affairs (MOEA) Department of Industrial Technology (DIT), IDB, Board of Foreign Trade (BOFT) and Small & Medium Enterprise Administration (SMEA) have allocated NTD 1.1 billion, NTD 1.4 billion and NTD 1.7 billion in fiscal years 2005, 2006 and 2007 respectively to assist textile manufacturers to: (1) establish production lines globally, (2) promote company e-commerce capabilities, (3) improve industry R&D technology in an attempt to upgrade product quality, (4) cultivate general textile expertise through training and scholarships, and (5) establish a good production environment in Taiwan.

Manufacturers Moving Offshore - But Not to China

19. Following the decision by Formosa Plastics Group to develop polyester chips and nylons in Vietnam several years ago, other industry leaders are also establishing operations in Vietnam, leading to a clustering effect. Leading garment manufacturers such as Makalot Industrial Co. and Roo Hsing Garment Co. Ltd. have already invested there. Manufacturers in the mid-stream sectors are also planning to move to Vietnam. Nan Yang Dye/Finish Co. Chairman Ho Jun said that the dye and finish factories have no choice but to follow their customers in Taiwan's garment industry offshore. His company plans to complete a sizeable investment in Vietnam by the end of 2005. Taiwan textile factories are forming complete, integrated production lines in Vietnam.

10. Tainan Textile Co. now operates yarn-manufacturing facilities in Vietnam with an annual capacity of 300,000 spindles. Formosa Petrochemical Corporation and Chung-Shing Textile Co.'s Vietnam plants now produce 200,000 and 110,000 spindles of yarn, respectively. The local press reports that these companies plan to expand production capacity in 2005.

11. In a meeting between representatives from the U.S. Import Administration and the Taiwan Textile Federation (TTF) on March 3, 2005, Mr. Roland Tsia, Chairman of the Formostar Garment Co.

SIPDIS

explained that in response to mainland Chinese concerns about over-investment in the garment and yarn sectors, China now discourages investment from foreign companies in these down and mid-stream sectors. China continues to welcome investment in the "up-stream" textile industry producing yarns and fibers. Tsai complained that Chinese textile manufacturers are luring experts and managers from foreign companies located in China with extremely high pay in the first 2-3 years in an attempt to improve domestic expertise. However, after improving the technical and management skills of their domestic employees, the Chinese manufacturers will abruptly decrease the salary of these experts and managers in order to drive them out. Tsai believes this is a concerted business strategy to allow Chinese companies to rapidly improve their competitiveness, to the detriment of Taiwan experts and manufactures.

Comment: The world is bigger than China

112. Comment: Not surprisingly given the TTF's close ties to the Taiwan government, none of the participants in the February 24 seminar or the March 3 discussion with TTF encouraged investment in China. Manufacturers in Taiwan have long been aware of the need to reduce costs to stay competitive in the global textile market and have seen offshore manufacturing as their only recourse. Taiwan textile companies have been investing heavily in China for several years in search of lower costs and many tell us they will continue to do so. But for some, China is clearly no longer the only attractive overseas investment destination. End Comment.

PAAL